

Wall Street Fears a Health Insurer Meltdown Is Far From Over

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John Tozzi

Reporter

The tide of US government money that has been pouring into health insurers for decades is reversing more abruptly than expected, putting strategies that drove profit growth for years in doubt.

Elevance Health Inc.'s earnings on **Thursday** were the latest blow. The company slashed its profit outlook after struggling to contain higher medical costs in Affordable Care Act plans and lagging reimbursements from Medicaid safety net plans for the poor.

Setbacks in government health programs are hitting the entire industry, prompting Elevance, UnitedHealth Group Inc., Centene Corp. and Molina Healthcare Inc. to warn of worsening outlooks. The four companies together have lost more than \$300 billion of market value since mid-April, shocking many investors who piled into the insurers because they were considered reliable profit machines.

The years ahead may bring even steeper challenges, though: Congress is cutting funding and tightening enrollment rules, an unprecedented reversal set to purge millions of people from federal health programs. That's raising questions about whether health insurers will ever get back to the level of profit growth Wall Street grew accustomed to.

"There's nowhere to hide right now," said **Ari Gottlieb**, a health-care consultant and founder of A2 Strategy.

The changes are a stark reversal of fortune for insurers. They built giant businesses on the backs of taxpayer-funded programs, making ever more money as Congress spent big to expand Americans' access to health insurance. Companies like UnitedHealth served as government contractors, managing those plans and overseeing ballooning patient rolls.

The industry benefited from expansions of coverage under both Democrats and Republicans. Congress added prescription drug benefits to Medicare — managed by private insurers — under President George W. Bush in 2003. The ACA, President Barack Obama's 2010 health overhaul, expanded Medicaid and created vast new markets for private health plans subsidized by Washington.

A surge of aging Baby Boomers swelled enrollment in private Medicare plans for seniors that offered insurers lucrative payments, bolstered by support during President Donald Trump's first term. At the same time, both red and blue states turned to insurance companies to administer their Medicaid programs for low-income residents.

When Covid-19 emerged, Congress pumped more money into Medicaid and barred states from kicking people off the coverage during the crisis. Then as Joe Biden took office, Democrats boosted subsidies for ACA plans, doubling the size of the market to 24 million.

Insurers in that market also benefitted from lax oversight of enrollment. Improper or fraudulent sign-ups fueled by unscrupulous brokers meant insurers were getting premium payments, backed by federal subsidies, for members who used little or no medical care, Gottlieb said.

A crackdown on those practices started under Biden and is set to accelerate under Trump. The industry is waking up to what it means. "How much did that just lift the water level for everyone, and it wasn't really long term, and it wasn't sustainable?" Gottlieb said.

Late Thursday, US health officials **said** they identified 2.8 million people "potentially" enrolled in multiple plans under Medicaid or the ACA in 2024. The Centers for Medicare and Medicaid Services plans to increase safeguards against duplicate enrollments, the agency said — actions that might reduce membership for insurers benefiting from them.

It's easier for insurers to grow profits when enrollment is growing — with more people paying into risk pools and federal funding propping up membership.

"For a number of years, the health plans have been playing this kind of game of maximizing revenue, and as long as the revenue was coming in higher than the medical costs, you were OK," **J. Mario Molina**, the former chief executive of Molina Healthcare said in an interview in early July. "I think the whole thing is beginning to fray."

Medicare is restricting payments to private insurers after years of rising concerns about how the program can be gamed for profit. Medicaid programs have purged millions of people from their rolls since the Covid emergency ended. And Biden-era subsidies for ACA plans expire after this year, with a Republican Congress unlikely to extend them.

The ACA market for individual insurance could shrink market by as much as 57%, or 13.6 million enrollees, actuaries from Wakely recently **estimated**. That would roughly revert the market to the **size** it was before the Biden administration expanded subsidies.

Mounting Pressure

It's a sign of how much the industry has struggled to shape policymaking to its advantage lately. Adding to pressure, the Republican tax cut and spending bill passed in July cuts Medicaid by **almost \$1 trillion** over a decade and is projected to make 11.8 million people uninsured.

That's caught both the companies and investors off guard. "It is unprecedented for Congress to enact legislation predicted to result in millions of individuals losing health coverage," Veda Partners analyst Spencer Perlman wrote in a July 10 research note.

That Congress passed a law so damaging to insurers and hospitals shows the waning political power those industry groups wield in Washington.

"This is the second group of very powerful health-care stakeholders that have gotten knee-capped in the last couple years," Perlman said in a Thursday interview, noting the hit pharma companies took in the Inflation Reduction Act.

He said it marks an inflection point likely to change the trajectory of insurers' businesses, unless political backlash to coverage losses and hospital closures spurs a shift.

Forecast Miss

In May, UnitedHealth Group pulled its guidance and replaced its CEO after changes to Medicare payments threatened its profits. Centene also yanked its outlook after a forecasting miss in the ACA, knocking out more than seven years of stock price gains overnight.

J. Mario Molina, who has no involvement or shares in the company he used to lead, warned that soon the industry would "see the other shoe drop." Days after his remarks, Molina Healthcare **lowered its forecast** for the year and reported preliminary earnings below Wall Street's expectations, citing elevated medical expenses. Elevance's miss followed.

Wall Street analysts Thursday morning questioned Elevance's management about the "unprecedented" shifts in risk. Bank of America's Kevin Fischbeck questioned why the company would assume profits in Medicaid would improve in the next few years, given the threats to enrollment in the law Congress just passed.

Elevance Chief Executive Officer Gail Boudreaux acknowledged the "dislocation" but reiterated that both Medicaid and the ACA were "very positive markets."

"It's a short-term volatility issue that we're going to get through," she said.